

Malaysia's Financial Development Context

10 Key trends and developments

What success looks like in 2026

20 Our regulatory focus for financial development

Box Article:

Futureproofing the financial sector workforce

Box Article:

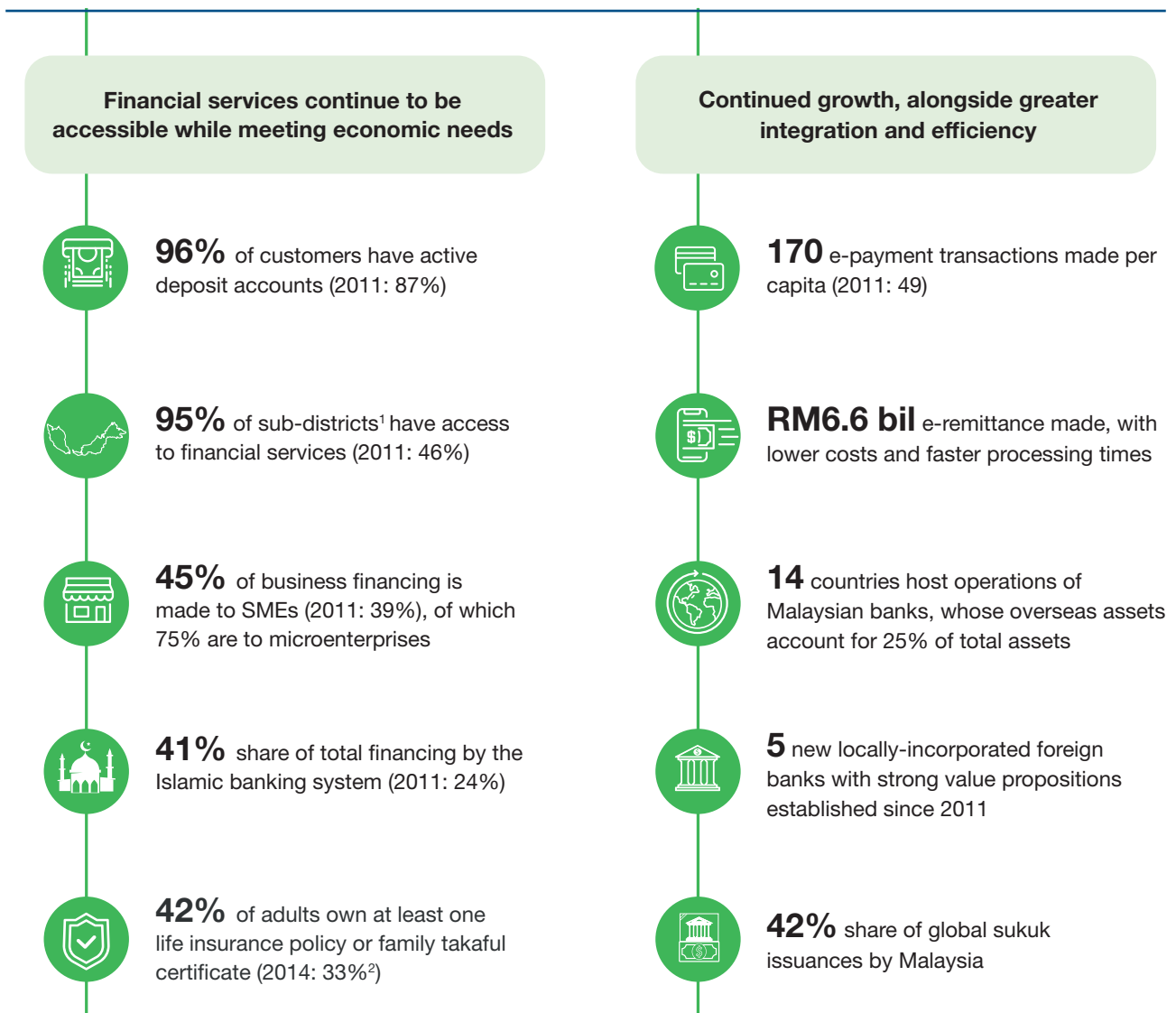
Medium-term priorities for the prudential framework and anti-money laundering and countering financing of terrorism (AML/CFT)

Key trends and developments

The financial sector has served the Malaysian economy well

It is vital that the financial sector is anchored on the real economy. This means that financial services should ultimately improve lives and livelihoods – helping individuals or businesses grow their wealth, make payments, own a home, grow their enterprise, manage financial risks and adverse events, create high quality jobs, and other economic outcomes. To that end, Malaysia's financial sector development has made good progress over the years (Diagram 1).

Diagram 1:
Malaysia's financial development progress at a glance



¹ With population of at least 2,000 people

² Earliest data available, after accounting for multiple policies per individual

Source: Bank Negara Malaysia, data as of end-2020 unless specified otherwise.

Malaysia's financial system today is the outcome of continued efforts and reforms over decades. Initiatives pursued under the Financial Sector Masterplan 2001 and the Financial Sector Blueprint 2011-2020 have fostered an environment conducive for the financial sector to keep pace with emerging developments and capitalise on new opportunities – thereby supporting Malaysia's economic development.

Along the way, core building blocks were established – many of which placed Malaysia's financial sector on a stronger footing, not only to withstand the shocks of the recent pandemic, but also to become a source of strength to cushion the economy:

- **Modernisation of the laws governing the financial sector**, particularly with the enactment of the Central Bank of Malaysia Act 2009 (CBA), Financial Services Act 2013 (FSA), and Islamic Financial Services Act 2013 (IFSA). These reforms enabled us to be more responsive to risks to monetary and financial stability in an environment when the financial system was becoming more interconnected. Enhanced legal powers paved the way for more effective oversight of more complex structures that were emerging then, which are increasingly relevant today (e.g. financial groups, non-bank financial institutions). Our commitment to other key financial regulatory objectives – such as conduct regulation, financial inclusion, and managing risks from non-bank financial institutions – were also cemented in these laws.

- **Regulatory reforms to create a strong, stable and progressive financial system**. Building on lessons all the way from the 1997 Asian Financial Crisis (AFC), corporate governance and risk management practices of financial institutions have been significantly strengthened. In the wake of the 2007/08 global financial crisis, we also advanced the adoption of key international standards (e.g. Basel III capital and liquidity reforms) – a crucial enabler as Malaysia's financial system was becoming more integrated with the global financial system (e.g. greater overseas presence, capital-raising activities in international financial markets).

More importantly, these reforms placed the financial system in a position of strength to be a shock absorber during economic downturns and play a countercyclical role to support economic recovery. Reflecting this, the range of financial sector assistance during the pandemic – be it debt restructuring for affected borrowers, or new financing to help businesses recover and rebuild – were possible only on account of the large buffers built up during good times.

Malaysia's financial system today is the outcome of decades of continued efforts and reforms

- **Key initiatives to empower and protect consumers**. These include the introduction of responsible financing guidelines in 2012. Against more competitive conditions, the guidelines ensured that lenders remained prudent in assessing whether borrowers could afford financing products over the lifetime of the financing – thereby promoting a more sustainable credit market and sound credit culture. The guidelines also encourage sound borrowing decisions by consumers, with clear expectations set for financial institutions to ensure that consumers are treated fairly in the sales, marketing and administration of financing facilities. In the area of insurance and takaful intermediaries, the Balanced Scorecard Framework was also introduced in 2018 – aligning remuneration structures of insurance and takaful intermediaries with better quality sales and policy servicing. More broadly, the recently introduced policy on Fair Treatment of Financial Consumers has placed expectations on financial institutions' boards and management to promote a culture of fair dealings with financial consumers.

Complementing these efforts is our continued collaboration with the Government and other stakeholders in the area of financial education, thereby supporting more well-informed decisions by consumers. Notably, the Financial Education Network (FEN) was established in 2016 to coordinate and drive a national financial education strategy in Malaysia. Meanwhile, advisory and redress mechanisms have also been put in place to support individuals and businesses facing financial distress. These include the Credit Counselling and Debt Management Agency (AKPK), Small Debt Resolution Scheme (SDRS), Corporate Debt Restructuring Committee (CDRC), and Ombudsman for Financial Services (OFS) – all of which are established by the Bank.

- Reforms to support Islamic finance development.** The CBA reinforced the role of the Shariah Advisory Council, thereby accorded it the status of the sole authoritative body on Shariah matters pertaining to Islamic finance. Enhancements to the regulatory framework following the enactment of the IFSA have strengthened foundations for end-to-end Shariah governance and compliance in the Islamic finance sector. This has allowed Islamic financial institutions to make full use of the diverse spectrum of Shariah contracts in financial transactions to design products that better meet customer needs, while being assured of the sanctity and validity of such transactions in the eyes of Shariah. With this groundwork, the focus has since turned to efforts to give full effect to the underlying principles of Shariah. An important step in this journey was the introduction of VBI, which calls on Islamic financial institutions to engineer solutions and adopt practices that have a more positive impact on the economy, community, and environment.

Meanwhile, as part of concerted efforts with the Government, financial regulators and industry players under the Malaysia International Islamic

Financial Centre (MIFC) agenda, key initiatives have also been advanced over the years to strengthen Malaysia's global standing for Islamic finance – including to develop global infrastructures such as the Islamic Financial Services Board (IFSB) and International Islamic Liquidity Management Corporation (IILM).

- Growing adoption of electronic payments (e-payments), alongside modernising of key infrastructures.** The use and acceptance of e-payment methods by businesses have accelerated over the past decade. Through concerted efforts with industry players, we have lowered the cost of e-payments to make it more affordable. For instance, this was achieved by addressing price distortions such as those existing between cash and cheques against e-payments. Key infrastructure enhancements were also rolled out – most notably, the Real-time Retail Payments Platform (RPP), which serves to support instant and seamless payments – not only between bank accounts, but also with e-wallets. Together with efforts to raise public awareness and confidence in the use of e-payments, these initiatives have made it easier for Malaysians and businesses to make and receive payments, be it in the physical or online world. These developments were vital in helping Malaysians manage the shock of the pandemic – which called for more contactless and digital transactions.

- Enhancements to the financing ecosystem for small and medium enterprises (SMEs), including microenterprises.** While credit decisions are commercial decisions for banks to make, we have worked with industry players to establish various mechanisms to bridge financing gaps. These include Credit Guarantee Corporation Malaysia Berhad's (CGC) imSME platform. Introduced in 2018, the platform enables SMEs to get fast access to a diverse array of financing products offered by various lenders. Meanwhile, SMEs facing difficulty with their financing applications may seek the assistance of *Khidmat Nasihat Pembiayaan* (MyKNP) to discuss challenges associated with their applications. The SDRS also helps financially distressed SME borrowers restructure or reschedule their financing. This was important during the pandemic in complementing repayment assistance programmes offered by lenders. Collectively, these mechanisms support an ecosystem that aims to ensure that the financing needs of SMEs are well supported, be it in good times or bad. This is particularly important given the sizeable role and importance of SMEs to the Malaysian economy and the distinct challenges they face in getting access to financing as compared to larger businesses.



A new landscape places new demands on the financial sector

As we continue to build on these foundations, it is crucial that the Malaysian financial system keeps pace with emerging developments. Looking ahead, various megatrends are expected to shape the future economic and financial landscape (see Diagram 2 for an overview). The pandemic has accelerated certain developments – accentuating some pre-existing vulnerabilities while also giving rise to opportunities for reforms that are long overdue.

Diagram 2
Key megatrends shaping the economic and financial landscape



Economic conditions

Uneven global economic recovery, alongside other uncertainties (e.g. virus path, global supply chain shifts)



Demographics

Risks of financial exclusion amid ageing population and other persistent gaps (e.g. socioeconomic disparities, financial literacy)



Technology

Promise of better financial services but with new regulatory challenges amid shorter innovation cycles, new skillsets required and blurred boundaries



Climate and environment

Need for a just and orderly transition to greener, more climate-resilient economy and financial sector

Macroeconomic trends amid an uneven global economic recovery

The shocks from the pandemic have led to the world economy's deepest recession since the Great Depression, where global gross domestic product (GDP) contracted by 3.1% in 2020. Since then, an unprecedented fiscal and monetary response at the global level has been crucial in charting the global economic recovery. Growth prospects have also improved with the progress in the rollout of vaccines across many countries.

Against this backdrop, the global economy is expected to rebound. According to the International Monetary Fund (IMF), the global economy is forecast to grow by 4.9% in 2022. The path to recovery, however, is likely to be uneven across countries, depending on differences in – and efficacy of – fiscal and monetary stimulus, as well as vaccination programmes.

As a small and open economy, Malaysia's opportunities and risks will continue to be shaped by developments and uncertainties beyond our shores. Prolonged effects on global trade are also possible, amid social and geopolitical tensions in an increasingly multi-polar world order. There are also pressures towards deglobalisation, alongside rising protectionist sentiments and potential shifts in global supply chains. On the public health front, the evolutionary path of the virus is another uncertainty – and may trigger new threats. This can lead to containment measures that affect economic activity. Among others, these trends will weigh on the strength and speed of global growth.

Structural reforms are needed to lay foundations for innovation-led growth and mitigate scarring effects from the pandemic

In navigating the challenges ahead, Malaysia must remain committed to executing structural reforms. Beyond the immediate focus of protecting lives and livelihoods, the broader objective should be to mitigate longer-term scarring effects from the crisis, while laying the foundations for a more innovation-led growth model to remain competitive at an international level and sustain our economic progress¹. Key areas of reform should include investment policy and incentives, labour markets, as well as digitalisation.

This includes helping key segments, such as SMEs, to pivot to a higher productivity growth path. Notably, SMEs have benefited from continued access to finance (45% share of total business financing in 2020), but there is still considerable room to translate that into higher economic output (38% contribution to GDP in 2020) to be on par with regional economies – e.g. Indonesia (61%), China (60%), and Singapore (47%)².

Rapid technological change

The transformative forces of digitalisation are fuelled by rapid technological advancements such as artificial intelligence (AI) and machine learning (ML), distributed ledger technology, and potential future applications from quantum computing. These will affect the delivery of finance in a multitude of ways.

As the wave of digitalisation sweeps across other sectors in the economy, the demand for financing will change as well. The Twelfth Malaysia Plan (RMK12) expects new innovative and technology-intensive industries, particularly the aerospace, biomass energy, electrical and electronics (E&E), halal, creative and smart agriculture industries to drive economic growth. Finance will need to support these new and emerging industries, which are critical for Malaysia's economic transformation.

The financial sector is expected to play an important role in supporting economic transformation.

Traditional modes of finance will remain important. Complementing efforts to reform the economy, the financial sector will need to meet new and more complex financing demands – such as for high-tech firms and other enterprises in highly innovative ventures.

In paving the way for the future of finance, it is vital to ensure that the financial sector absorbs, rather than amplifies, shocks and vulnerabilities in the economy. Avoiding an excessive reliance on debt will be key to that outcome. Apart from the recent pandemic, history has rich lessons to offer – particularly the experiences of “lost decades”, where markets with rapid expansion of debt outpacing economic growth suffered prolonged economic downturns and adverse effects on productivity in the wake of financial crises.

At the same time, “too much finance” may diminish benefits to economic growth – with potentially detrimental effects (e.g. more frequent booms and busts of an economy, diverting human capital away from productive sectors)³. Alternative finance – including non-debt-based solutions such as blended finance, venture capital (VC), private equity (PE), equity crowdfunding (ECF) – can complement traditional finance, providing new and potentially more resilient ways to fund the economy.

Digitalisation will also continue to shift consumer and business behaviour. Following the pandemic, the ‘low-touch’ economy has become much more pervasive. Customers have become much more familiar with digital and remote access amid public health concerns and movement controls. Although physical channels will likely remain relevant, this behavioural shift could be permanent for certain segments, especially among digital natives. Customers will increasingly demand an experience that is more frictionless, affordable, and customised, whether in the broader economy or financial services specifically. Governments, regulators, and industry players alike will need to have clear digitalisation strategies – not only to remain relevant, but to ensure that transformation efforts do not inadvertently heighten risks, such as to operational resilience, cyber security, and inclusion.

¹ For further details, please refer to the Box Article titled “Innovation Malaysia: Towards Higher Quality Growth in a Post-pandemic Future” in Bank Negara Malaysia's Economic and Monetary Review 2020, accessible at https://www.bnm.gov.my/documents/20124/3026377/emr2020_en_box2_innovation.pdf.

² Source: Data compilation from Statistics Indonesia, Singapore Department of Statistics and China's Ministry of Industry and Information Technology.

³ Source: Arcand, Berkes and Panizza (2012), “Too Much Finance?”, IMF Working Paper 12/61; Philippon and Reshef (2013), “An International Look at the Growth of Modern Finance”, Journal of Economic Perspectives.

In the digital world, the heightened focus on the customer comes with an intensified focus on data, often described as the new ‘oil’. Increasingly, financial institutions are making use of AI and ML to better understand consumer behaviour and spending patterns. This can support better risk management practices, more accessible financial services, and more customer-centric innovation. There is also a growing recognition of the criticality of key financial infrastructures that store, share, or synthesise these data. These include payment and settlement systems, as well as credit information systems. Combined with the Government’s initiatives – notably the National Data Sharing Policy (NDSP) to expand data accessibility – we expect more room for data-driven innovations moving forward. The regulatory landscape for financial services will also need to evolve in tandem, particularly to promote responsible and ethical use of data.

Rise of digital ecosystems demand policy responses that unlock benefits while managing regulatory arbitrage, potential spill-over risks and a growing reliance on third party service providers

Digitalisation is also profoundly reshaping the dynamics of the financial sector. A major development is the blurring of the lines between financial and non-financial services, as players seek to build ecosystems. Commercial enterprises – including Bigtechs – are making inroads into financial services, leveraging their existing networks of customers and merchants. Meanwhile, incumbent financial service providers (FSPs) are entering into an array of strategic partnerships, such as with fintechs and other firms, to better serve their customers. In parallel, emerging innovations – such as those in the decentralised finance (DeFi) space – are also introducing novel ways to store and mobilise funds, with potentially greater control by end-users.

Collectively, these trends intensify competition and collaboration – introducing new business models, as well as the promise of more efficient and innovative financial services. But these trends will also raise questions about how to keep these services inclusive and secure, while preserving market vibrancy. Safeguarding cyber security, including to manage ‘weakest link’ risks – amidst growing relationships between financial institutions and third party service providers (TPSPs) – will be critical.



Demographic shifts and challenges

Malaysia is expected to become an ageing nation by 2030⁴. Coupled with slower population growth, there will be new opportunities and challenges for the financial system. Visible coverage gaps remain among retirement savings schemes in Malaysia. For instance, the Employees Provident Fund (EPF) estimates that two out of three active EPF contributors may have insufficient retirement savings to meet a minimum pension of RM1,000 per month⁵. Meanwhile, private retirement schemes may be insufficient, with less than 3% of Malaysia's workforce having a Private Retirement Scheme (PRS) account⁶.

These gaps need to be addressed at the national scale, and the financial sector can play a role – in particular, to support greater household wealth accumulation for retirement and individuals to manage longevity risks. It will also be critical to ensure sufficient diversity in financial products and services that are linked to health and income protection – as well as to raise awareness of available products in the market.

Attracting quality investments is important to rebuild buffers that were eroded during the crisis, such as retirement savings

The future of work also presents positive prospects and challenges for jobs, such as the growing gig economy. However, social insurance coverage gaps remain for workers in the informal sector and the self-employed, arising both from the absence of an Employment Insurance System (EIS) equivalent cover and undersubscription to Self-Employment Social Security Scheme (SESS) for employment injury protection. The pandemic surfaced some of these gaps, with workers in these segments being hit particularly hard – amplified by typically lower savings.

As the economy recovers, it will be important to put in place measures to gradually rebuild financial buffers that were affected during the crisis, such as retirement savings and longer-term investments. Meanwhile, priority must continue to be accorded to expand the coverage of social insurance schemes, with private financial sector solutions complementing protection cover needed by this growing segment to build resilience against future economic and financial shocks.

Other socioeconomic factors are also relevant in shaping financial development. Socioeconomic disparities, such as income and wealth inequality – alongside rising cost of living – are relevant considerations. It will be important to ensure that developments in the financial sector continuously strive to be more inclusive, particularly in meeting the needs of individuals and businesses that are unserved and underserved. Financial services will need to remain affordable and accessible, so that it addresses the societal needs of various segments.

Financial literacy gaps will also remain relevant in determining financial development priorities ahead. A recent study found that Malaysians scored below average in financial knowledge, reflecting gaps in financial decision making⁷. Delivery of products and services, in particular innovations, must be supplemented with safeguards. These should aim to preserve sound consumer outcomes, while empowering individuals to make well-informed financial decisions based on their circumstances.

More broadly, the financial sector can play a role in supporting greater social resilience and upward mobility, such as by combining financial services with other services for the customer (e.g. advisory, financial education, capacity-building) and offering more innovative products to help customers grow and secure their wealth. At the very least, the financial sector should avoid further deepening existing disparities, such as through greater household indebtedness for non-productive activities. Competition will continue to be key in advancing these outcomes, especially through the entry of players that target existing market gaps or segments that may be served better.

⁴ Population aged 60 years and over surpassing 15% of the total population.

⁵ Source: EPF (2018), "Social Protection Insight 2018".

⁶ Source: Manulife Investment Management (2019). "A Zoom into Asia's Pension Reform Journey: Different Perspectives of a Multi-pillar Approach".

⁷ Source: OECD, International Network on Financial Education (2020), "International Survey of Adult Financial Literacy".

Climate change and the broader sustainability agenda

The implications of climate change are also becoming more evident. Climate-related events – such as storms, flooding, droughts – have been intensifying in severity and frequency. The knock-on effects can go beyond nature and affect livelihoods, food security, and businesses. There can be further risks to financial stability as the health and resilience of the financial sector are linked to the broader economy.



Efforts to reinvigorate the economy must aim for a greener model of growth. Tackling this challenge requires making bold policy decisions including adopting carbon pricing, ensuring energy security as a key priority, and formulating a stronger international cooperation framework. As a signatory to the Paris Agreement, Malaysia has committed to reduce greenhouse gas (GHG) emissions by 45% by 2030, and a further 60% in 2035 compared to 2005 levels. As the central bank, we are equally committed to foster a climate-resilient financial sector that also supports an orderly transition to a low-carbon economy, in line with the Paris goals and the Government's longer-term commitment to become a net zero nation.

Malaysia's efforts will also contribute to the growing global movement towards promoting greater environmental sustainability. Climate change – and its associated raft of reforms – can be expected to alter the course of economic development. Malaysia's active efforts on this front will preserve the nation's economic competitiveness, especially as more countries introduce climate change legislation, carbon management programmes, and other climate-related initiatives.

Beyond climate change, it will also be timely to advance efforts towards a more sustainable development model. Other issues of environmental well-being, such as those relating to the circular economy and biodiversity, are equally important.

The need for a ‘whole-of-nation’ approach

All crises – including the recent pandemic – come with a unique window of opportunity for reform. Malaysia should seize it. Going forward, Malaysia’s growth must be innovation-led. This will call for reforms that can improve our economic complexity – that is, productivity reflected by the diversity and sophistication of Malaysia’s goods and services. To this end, the National Investment Aspirations (NIA) are important signposts⁸ that aim to attract and promote quality investments, build innovation capacity, and increase both productivity and growth.

Making these things happen will require a concerted, collaborative effort by all stakeholders, be it the public or private sector – a ‘whole-of-government’ and ‘whole-of-nation’ approach. To this end, the RMK12 has set out a range of aspirations and initiatives – among others, to achieve a strong economic recovery, accelerated productivity, higher household incomes, widespread connectivity, improved well-being, and a greener economy. Advancing these goals will be key moving forward.

Complementing these broader strategies, the Bank is committed to ensure that the financial sector continues to provide a conducive environment for sustainable economic growth. This Blueprint will set out how we plan to do this over the next five years. This is further supported by our envisioned outcomes and targets for the financial sector in 2026, as set out in “What success looks like in 2026”.



⁸ The NIAs refer to overarching strategic developmental objectives to increase economic complexity, create high-value jobs, extend domestic industry linkages, and develop new and existing clusters. For further details, please refer to the Box Article titled “Securing Future Growth through Quality Investments” in Bank Negara Malaysia’s Economic and Monetary Review 2019, accessible at https://www.bnm.gov.my/documents/20124/2722983/emr2019_en_box1.pdf

What success looks like in 2026

What success looks like in 2026

Finance for all



Diverse choices for customers, with most preferring digital solutions

- ♦ 'Digital first' solutions available (e.g. invisible payments, digitalised motor claims, smart contracts)
- ♦ High level of trust in reliability and security of online services
- ♦ Accelerated digital payments adoption, with e-payment per capita increasing at a CAGR¹ of higher than 15%

Strengthened financial safety nets, especially for the most vulnerable

- ♦ Insurance/takaful penetration rate at between 4.8% to 5%²
- ♦ Significant increase in take-up of insurance/takaful, with doubling of number of individuals subscribed to microinsurance/microtakaful
- ♦ Growth in social finance solutions and other value-added services (e.g. upskilling)

Confident and capable financial consumers taking charge of their financial futures

- ♦ Improved financial literacy, with narrowing gap between Malaysia's OECD International Network on Financial Education (OECD/INFE) financial literacy scores, and the average score of OECD members
- ♦ Consumer protection reforms (e.g. CCA³ and CCOB⁴, single regulatory regime for financial advisors and financial planners)

Finance for transformation



Significant growth in alternative finance, supporting innovative ventures

- ♦ Steady growth in alternative finance channelled to new, innovative enterprises (e.g. early-stage, asset-light, technology intensive)
- ♦ Greater use of alternative data alongside traditional metrics for more differentiated pricing and inclusion

Deeper global integration, including in Islamic finance

- ♦ Faster, cheaper, more accessible and transparent cross-border payments in line with the Group of Twenty (G20) roadmap
- ♦ Malaysia continues to be recognised as global leader in Islamic finance

Vibrant and dynamic financial landscape

- ♦ Healthy competition driving continuous innovation to better serve customers
- ♦ Regulatory environment recognised as conducive for digital financial innovation
- ♦ Open and interoperable infrastructures (e.g. payment systems, technical standards for data sharing)

Finance for sustainability



Wider adoption of VBI to serve the economy, community and environment

- ♦ Steady growth in VBI-aligned assets, with a growing share by conventional banks and insurers
- ♦ Better quality disclosures to support market incentives for more responsible and ethical finance

Steady progress in greening finance and financing green

- ♦ Strengthened practices to assess, measure, disclose and manage climate risk
- ♦ Increasing share of financial flows towards climate supporting and transitioning activities – by 2026, more than 50% of new financing classified as C1, C2 and C3 under the CCPT⁵
- ♦ Financial institutions provide meaningful support to help customers transition

¹ Compounded annual growth rate

² As a percentage of GDP

³ Consumer Credit Act

⁴ Consumer Credit Oversight Board

⁵ Climate Change and Principle-based

Taxonomy, where C1, C2 and C3 represent economic activities that are classified as "climate supporting" or "transitioning" in terms of their contribution towards climate and environmental objectives



... underpinned by stable and resilient foundations
anchored on the Bank's mandates to promote monetary and financial stability

Our regulatory focus for financial development

Broadly, our regulatory focus will be to:

- Foster market dynamism;
- Support sustainable development objectives; and
- Remain anchored on our mandate to promote monetary and financial stability conducive for sustainable economic growth.

These underpin the strategies set out in the Blueprint and are further articulated in the remainder of this chapter.

Fostering market dynamism

With various major forces of change at play, the next stage of Malaysia's financial development journey takes place in a landscape that is extraordinarily uncertain. At the same time, Malaysia's financial sector is now more well-developed. Unlike the decades before, gaps that demand strong regulatory involvement may be less obvious.

In such an environment, fostering greater market dynamism is critical for the financial sector to adapt effectively to a wide range of scenarios.

Regulatory efforts will aim to foster the right conditions for these outcomes, through targeted interventions to remove undue barriers to competition and innovation, as well as to address market failures. Priority will be given to ensure the well-functioning of three key market mechanisms – namely, market access, ecosystem enablers, and market discipline (Diagram 1).

In relation to these market mechanisms, our focus will be to:

- Address undue barriers to market entry, while ensuring orderly exit;
- Promote 'co-opetition' efforts for critical ecosystem enablers; and
- Strengthen conditions for market discipline focusing on more empowered consumers.

We will aim to foster the right conditions for a highly adaptive financial sector

Diagram 1:
Key elements of market dynamism



Address undue barriers to market entry, while ensuring orderly exit

Entry regimes will be designed based on principles of parity and proportionality. This means that the same types of risks will be regulated the same way ('parity'), with the intensity of regulatory requirements calibrated in a way that is commensurate with the level of risk ('proportionality').

This may entail graduated entry pathways – where a new entrant is gradually transitioned into the existing regulatory framework for incumbents – to better reflect the risk profile and stage of development of a new entrant. An example of this is the foundational phase in our licensing framework for digital banks.

A more managed approach to market entry will continue to be adopted. In determining the number of new licences, we will seek to avoid excessive fragmentation in the financial sector – which creates inefficiencies and vulnerabilities that can jeopardise public interests and financial stability. Our aim will be

We are keen to ensure that new players contribute towards addressing prevailing gaps

to facilitate the entry of new players that contribute towards addressing prevailing gaps – such as in advancing greater financial inclusion.

More broadly, we remain guided by our continuing objectives to promote market participation in a way that serves the best interest of Malaysia, as set out in the FSA and IFSA. Maintaining a strong core of resilient and competitive domestic institutions will continue to be an important consideration – particularly for stability-critical areas (e.g. systemically important infrastructures). This reflects the important role of domestic institutions as a countercyclical force during times of unanticipated shocks, volatilities or uncertainties, as shown in past crises.

In any competitive market, the possible exit of individual players must also be expected. We see this as an important part of the creative destruction process, which creates more dynamic and adaptive players. This in turn makes Malaysia's financial ecosystem stronger and more resilient in the longer-term. In this regard, we do not aim for 'zero failures'. Instead, we focus on reducing the risks and impact when failures happen, such as by requiring financial institutions to have clear exit plans for winding up business operations in a way that is not disruptive.

Promote 'co-opetition' and public-private partnerships for critical ecosystem enablers

We will promote collaboration and coordination among relevant stakeholders to address ecosystem-wide issues. These include developing shared infrastructures, technical standards, and other protocols to increase efficiency and encourage innovation – which are preconditions for market dynamism.

This is consistent with the principle of 'co-opetition' – where industry players pool resources to develop ecosystem enablers, such as shared infrastructures – which we have long promoted. The resultant efficiency gains will deliver more affordable services to end-users, such as consumers and businesses. Meanwhile, competition would be intensified at the product level, with industry players aiming to differentiate themselves through value-added features that better serve end-users.

We expect industry players to ultimately take the lead in making these collective decisions to promote more sustainable outcomes that advance common interests, while taking into account longer-term commercial implications for industry players. Industry associations, as well as public-private partnerships, can play a vital role in this regard. A key success factor to greater industry leadership will be financial sector talent (refer to the box article "Futureproofing the financial sector workforce").

We will facilitate industry efforts to collaborate effectively on ecosystem enablers, such as infrastructures and technical standards

On our part as the central bank, we will aim to facilitate collective actions among industry players, complementing our stability mandates. In doing so, we will seek to preserve and encourage healthy competition among industry players. We will focus our interventions on situations where there are clear red flags of market failures or risks to the system. This may be where desirable collective efforts – namely, those that advance public interests – are not forthcoming due to overly dominant short-term or competing commercial interests. Fear of first-mover disadvantage, or the desire to shut out competition, are some of these red flags.

Strengthen conditions for market discipline focusing on more empowered financial consumers

We will seek to promote better informed decisions by financial consumers. Combined with competition, consumer choice provides strong incentives for financial institutions to address pain points faced by their customers, or to innovate to attract new ones.

To this end, our longstanding efforts to help consumers make well-informed decisions continue to be essential. This includes ensuring that consumers have access to the right information, and in a way that is easy to navigate and understand.

Another relevant factor is for financial consumers – upon being better informed – to be able to seamlessly act on their preferences. In this regard, we will continue to collaborate with other stakeholders to explore ways to make it easier for consumers to change their FSPs – namely, lowering ‘switching costs’. This will take into account the need for minimum protections to safeguard consumers against fraud and abuse, as well as the implications to the overall resilience of the financial system.

We will also aim to promote open and interoperable design principles for key financial infrastructures, such as to futureproof access to payment and settlement systems and to promote open data initiatives. We see this as a natural evolution of the financial sector, as business models become more diverse and to some extent, less bank-centric. In these efforts, our key focus on preserving the overall resilience of these infrastructures will remain.

In parallel with efforts to empower consumers further, we will also continue to strengthen standards of conduct applied to financial institutions to deliver fair consumer outcomes. This will be reinforced by the use of our supervisory and enforcement levers to give effect to these outcomes. Continued financial education efforts will therefore also be critical to progressively elevate the financial capability of Malaysians.

In addition, we will advance our current collaboration with the Ministry of Finance (MOF) and the Securities Commission (SC) to pursue reforms to Malaysia’s legal and regulatory architecture for conduct oversight. These aim to provide stronger and more consistent protection for financial consumers across FSPs that are currently subject to different levels of formal oversight – aiming to better align expectations on business conduct and fair treatment of financial consumers across the industry.

Reforms to Malaysia’s legal and regulatory architecture for conduct oversight will be advanced together with the MOF and the SC



Support sustainable development objectives

As the financial sector navigates development opportunities, it will be important to ensure that we move towards a more sustainable, inclusive, and responsible future. We remain committed to this outcome, which will contribute towards supporting the United Nations Sustainable Development Goals (SDGs).

Diagram 2:
Focus areas for sustainable development



Efforts to promote sustainable development objectives will aim to:

- Mainstream VBI;
- Address needs of the unserved and underserved; and
- Support greater climate resilience and a more environmentally sustainable growth model.

Signposts in the financial development journey ahead will be important to ensure a more sustainable, inclusive, and responsible future

Mainstream VBI

VBI will continue to be a key framework to guide our financial development initiatives. Introduced in 2017, VBI emphasises the need for financial services to have a clear and distinct focus on generating a positive impact on the economy, community, and environment.

While the earlier stages saw a major role by Islamic financial institutions, the objectives and principles of VBI are universal. We envision these considerations to be gradually mainstreamed moving forward, with more financial institutions committing to the VBI agenda.

Address needs of the unserved and underserved

Our continued work to support inclusive financial services will be a major thrust of that broader vision. As we look at enabling new business models and other innovations, we will seek to prioritise those that can better address the needs of the unserved and underserved. We emphasised this when we introduced the digital banking licensing framework for Malaysia. Within the funding ecosystem, we will also implement initiatives and accelerate institutional reforms – working with the relevant stakeholders – to ensure key segments in the economy (e.g. SMEs) have continued access to finance, including alternative finance solutions. Other areas that we will be paying greater attention to in the next few years will include more inclusive models for insurance/takaful, as well as social finance.

Support greater climate resilience and a more environmentally sustainable growth model

Environment-related initiatives will also be a major area of focus. Our priority here is to ensure that Malaysia's financial sector effectively evaluates and mitigates risks arising from climate change. We will seek to enhance prudential frameworks in this regard, as well as our broader surveillance capabilities to better assess the complex implications of climate risk on the financial sector. We will also actively consider opportunities for finance to play a catalytic role in supporting the transition to a low-carbon economy.



Across these efforts, we are committed to work together with various other stakeholders – from the Government, businesses and civil society – to support Malaysia's broader efforts to combat climate change.

Promoting monetary and financial stability

Our efforts to promote greater market dynamism and sustainable development outcomes will continue to be firmly anchored on our monetary and financial stability mandates. To this end, the Blueprint clarifies outcomes and principles for financial development in ways that are aligned with our core mandates – including what is clearly beyond our appetite, given major implications to public interests.

Diagram 3: Monetary and financial stability priorities



Ensure continued monetary policy efficacy

We will continue to ensure our monetary policy framework, strategies and tools remain effective in a changing financial landscape



Intensify efforts to safeguard resilience and integrity of the broader financial ecosystem

Regulations and supervision must remain effective against emerging risks (e.g. operational resilience, cyber risks, money laundering and terrorism financing (ML/TF)), avoid procyclicality, and minimise regulatory arbitrage – with strengthened collaborative oversight arrangements as different activities (including beyond the financial sector) become more interlinked

Ensure continued monetary policy efficacy

We will seek to preserve monetary policy efficacy amid the changing environment. The megatrends we outlined in the previous chapter – relating to macroeconomic conditions, technological change, demographics, and climate change – may have important implications for the conduct of monetary policy.

The emergence of digital assets and currencies will likely have an impact on the effectiveness of monetary policy transmission, while the linkages between climate risk and the broader macroeconomic conditions may give rise to new considerations for the conduct of

monetary policy. In addition, the diversification into non-debt based finance, including the increasing use of alternative finance instruments, will likely affect the relative importance of the traditional interest rate channel in the transmission of monetary policy.

To this end, we will assess our monetary policy framework, strategies, and tools to ensure that these remain fit-for-purpose in the years to come. This is to ensure that we are well-positioned to continue to achieve our core mandate of monetary stability and orderly market conditions in this changing landscape.

Intensify efforts to safeguard resilience and integrity of the broader financial ecosystem

We will aim to ensure that financial development efforts – whether by us or the industry – do not erode system-wide resilience and financial integrity. To this end, we remain committed to continuously enhance our regulatory frameworks in line with international standards – such as those set out by the Basel Committee on Banking Supervision (BCBS), International Association for Insurance Supervisors (IAIS), IFSB, and Financial Action Task Force (FATF) – where appropriate and relevant.

A crucial consideration moving forward will be the blurring boundaries in the landscape – be it across financial services, or between financial and non-financial sectors. Public interest objectives that were previously clearly demarcated are also becoming more interconnected. Issues relating to stability, competition, conduct, inclusion, and privacy – for example – are increasingly intertwined in the sphere of digital financial services.

Against this backdrop, it is vital to ensure the continued effectiveness of oversight arrangements and coordination at the ecosystem level – including to address the build-up of financial imbalances within the system (e.g. unsustainable levels of leverage or asset bubbles), as well as in fighting financial crime across the financial value chain.

Vital to ensure effective oversight at the ecosystem level, given blurring of boundaries in the financial landscape

To that end, we will review – and where appropriate, strengthen – current oversight arrangements for non-banks, be it for smaller entrants or larger non-bank financial institutions. This considers the potentially heightened risks of regulatory arbitrage, and deepened interlinkages beyond the financial sector, such as with third party service providers (TPSPs) and other partners of financial institutions. This is particularly relevant for risks to operational resilience, including those from cyber threats, and Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) concerns where the ecosystem may be only as strong as the weakest link.

Efforts will also be undertaken to advance shared priorities among the financial regulatory community. This will be supported by continued efforts to strengthen inter-agency coordination to ensure existing laws and regulations are administered effectively in a more complex landscape. We will also work with other regulatory authorities to identify areas for enhancement. These may include streamlining of regulatory processes, or longer-term measures that may call for new or enhanced legislation.

Five strategic thrusts for 2022-2026

In giving effect to our regulatory focus for financial development, we are driven by five strategic thrusts that are set out in the following chapters:

1. Fund Malaysia's economic transformation
2. Elevate the financial well-being of households and businesses
3. Advance digitalisation of the financial sector
4. Position the financial system to facilitate an orderly transition to a greener economy
5. Advance value-based finance through Islamic finance leadership